

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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TO SECSTATE WASHDC 5512

INFO AMEMBASSY BONN

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AMEMBASSY ROME

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJ: VIEWS OF TREASURER GENERAL ON RECENT MONETARY
DEVELOPMENTS

REF: USEC 2391

SUMMARY: ADDRESSING LUNCHEON MEETING OF HAGUE DIPLOMATIC
CORPS MARCH 20, DUTCH TREASURER GENERAL OORT COMMENTED ON POSSIBLE
SWISS ASSOCIATION IN "MINI-SNAKE", VIRTUES OF FLOATING
EXCHANGE RATE REGIME AND EUROPEAN UNIT OF ACCOUNT. HE ALSO
EXPRESSED VIEW THAT FRANCE NOW CAPABLE OF REJOINING MONETARY
SNAKE, WHICH IN OORT VIEW WOULD BE MOST DESIRABLE, PARTICULARLY
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AS COUNTERWEIGHT TO DM. END SUMMARY.

1. FOLLOWING GENERAL REVIEW OF IMPORTANT MONETARY DEVELOPMENTS OVER LAST FEW YEARS, OORT CONCLUDED THAT PRESENT REGIME OF FLOATING EXCHANGE RATES HAD BEEN INEVITABLE CONSEQUENCE OF DIVERGENT ECONOMIC DEVELOPMENTS IN PRINCIPAL TRADING COUNTRIES (ESP. HUGE U.S. BOP DEFICIT) AND OF FUNDAMENTALLY CHANGED ECONOMIC RELATIONSHIPS. IN RETROSPECT, FLOATING REGIME HAS WORKED VERY WELL AND HAS BEEN GENERALLY SENSITIVE TO CHANGES IN RELATIVE ECONOMIC CONDITIONS. FEARS OF SEVERE ECONOMIC DISLOCATIONS CAUSED BY RATE SHIFTS HAVE NOT MATERIALIZED. CONCLUSION TO BE DRAWN IS THAT PRESENT SYSTEM SHOULD NOT BE MODIFIED RADICALLY, ALTHOUGH MECHANISM FOR AVOIDING SUDDEN, ERRATIC SHIFTS IS NECESSARY. COSTS OF RETURN TO FIXED RATES (I.E. IMPOSITION OF CAPITAL CONTROLS WHICH WOULD BE NECESSARY TO AVOID STRESSES) ARE NOT JUSTIFIED.

2. SWISS ASSOCIATION WITH EC SNAKE: DESPITE HIS PREDILECTION FOR FLOATING REGIME, OORT WELCOMED SWISS "DECISION" (SIC) TO ASSOCIATE ITSELF WITH MINI-SNAKE. OORT ARGUED THAT SWISS MEMBERSHIP IS DESIRABLE BECAUSE OF NEED TO INHIBIT EFFECTS OF NON-MONETARY INFLUENCES ON EXCHANGE RATE. ACCORDING TO OORT, ONLY TECHNICAL DETAILS REMAIN TO BE WORKED OUT BEFORE SWISS JOIN. HE EXPRESSED CONFIDENCE DETAILS COULD BE IRONED OUT "WITHIN A FEW WEEKS".

3. FRENCH RETURN TO SNAKE: SPEAKING UNDER RUBRIC OF "MONETARY UNION" (WHICH, HE SAID, IS NOT ATTAINABLE BY 1980 DESPITE THAT STILL BEING OFFICIAL EC GOAL, OORT SPOKE OF THE "DEUTSCHMARK BLOC" (I.E., THE "MINI-SNAKE" REGION). WHILE THIS ARRANGEMENT HAS SERVED PARTICIPANTS WELL IN THE SHORT RUN, CERTAIN LONG-RUN DANGERS ARE INHERENT IF SYSTEM IS PERPETUATED, NAMELY, LOCKING IN OF GERMANY'S SMALLER PARTNERS TO GERMAN ECONOMIC POLICY. ONLY WAY TO AVERT THIS DANGER IS TO INTRODUCE COUNTERWEIGHT ASAP, WHICH COULD BE EFFECTED IF FRENCH WERE TO REJOIN THE SNAKE. IN OORT'S OPINION, THERE ARE NO ECONOMIC REASONS WHY FRANCE COULD NOT NOW DO SO.

4. EUROPEAN UNIT OF ACCOUNT: OORT DISAGREED WITH VIEW EXPRESSED BY FRENCH THAT THIS IS "YEAR OF EUROPEAN UNIT OF ACCOUNT". WHILE AGREEMENT ON NEW UNIT IS SIGNIFICANT DEVELOPMENT LIMITED OFFICIAL USE

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(AND, INDEED, HAS NOT RECEIVED ADEQUATE ATTENTION IN THE MEDIA) MUCH MORE MUST BE AGREED AND NECESSARY POLITICAL COMMITMENTS MUST BE MADE BY EUROPEAN PARTNERS BEFORE EUROPEAN UA CAN BECOME A VERY ATTRACTIVE ALTERNATIVE TO THE US DOLLAR.

5. RELATING, ALMOST ANECDOTALLY, HOW MEMBERS OF MONETARY COMMITTEE, MEETING IN PARIS OUTSIDE OF OFFICIAL EC STRUCTURE, HAD REACHED AGREEMENT ON WEIGHTS TO BE ACCORDED TO RESPECTIVE

CURRENCIES IN THE NEW UA, OORT COMMENTED THAT THE EXPERIENCE HAD DEMONSTRATED, BY CONTRAST, THE GENERAL LACK OF INFLUENCE WHICH THE EC COMMISSION EXERTS IN THE QUEST FOR POLITICAL COMPROMISES. ACCORDING TO OORT, AT PARIS MEETING, AFTER EACH MEMBER HAD EXPRESSED VIEW ON WEIGHTS HIS COUNTRY'S CURRENCY SHOULD CARRY IN NEW UA, PROPOSAL WAS MADE BY A PARTICIPANT TO REDUCE EACH WEIGHT BY SAME PROPORTION THAT ALL WEIGHT TOGETHER EXCEEDED 100 PERCENT. PROPOSAL WAS ADOPTED AND NEW UA EMERGED WITHOUT FURTHER ADO. IN OORT'S OPINION, EC COMMISSION SHOULD EXHIBIT SIMILAR INGENUITY RATHER THAN CONFINE ITS ROLE TO STUDY OF PROPOSALS AND ISSUANCE OF REPORTS. EXERCISING SUCH LEADERSHIP, OF COURSE, IMPLIES THAT THE COMMISSION WOULD ON OCCASION HAVE TO BE PREPARED TO "KNOCK SOME HEADS TOGETHER". GOULD

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